ADB

Validation Report

Reference Number: PVR-459
Project Number: 43477-013
Loan Numbers: 2951, 2952, and 2953
November 2016

Bangladesh: Second Capital Market Development Program

Independent Evaluation Department

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
BFID	–	Bank and Financial Institutions Division
BSEC	–	Bangladesh Securities and Exchange Commission
CSE	–	Chittagong Stock Exchange
CMDP II	–	Second Capital Market Development Program
DMF	–	design and monitoring framework
DSE	–	Dhaka Stock Exchange
FRA	–	Financial Reporting Act
GDP	–	gross domestic product
ICB	–	Investment Corporation of Bangladesh
IDRA	–	Insurance Development and Regulatory Authority
PCR	–	program completion report
PPTA	–	project preparatory technical assistance
RRP	–	report and recommendation to the President
SEC	–	Securities and Exchange Commission
TA	–	technical assistance

NOTE

In this report, “$” refers to US dollars

Key Words

adb, asian development bank, bangladesh, bangladesh securities and exchange commission, capital market, investor confidence, market reforms, reform program, stock market, validation

PROGRAM BASIC DATA

Project Number	43477-013	**PCR Circulation Date**	8 Sep 2015	
Loan Numbers	2951, 2952, and 2953	**PCR Validation Date**	Nov 2016	
Project Name	**Second Capital Market Development Program**			
Sector and subsector	Finance	Money and capital markets		
Theme and subtheme	Economic growth	Promoting economic efficiency and enabling business environment		
Safeguard categories	Environment		C	
	Involuntary Resettlement		C	
	Indigenous Peoples		C	
Country	Bangladesh		**Approved** ($ million)	**Actual** ($ million)
ADB Financing ($ million)	**ADF:** 155.00 (Loan 2952) 50.00 (Loan 2953)	**Total Program Costs**	300.00	294.78
	OCR: 95.00 (Loan 2951)	**Loans** Loan 2951 Loan 2952 Loan 2953	95.00 155.00 50.00	95.00 150.25 49.53
		Borrower	0.00	0.00
		Beneficiaries	0.00	0.00
		Others	0.00	0.00
Cofinancier		**Total Cofinancing**	0.00	0.00
Approval Date	28 Nov 2012	**Effectiveness Date**	27 Feb 2013	17 Dec 2012
Signing Date	29 Nov 2012	**Closing Date** Loan 2951 Loan 2952 Loan 2953	30 Jun 2014 30 Jun 2014 30 Jun 2014	5 Apr 2013 18 Dec 2014 18 Dec 2014
Project Officer	Syed A. H. Shah	**Location** ADB headquarters	**From** Nov 2012	**To** Dec 2014
IED Review Director	V. Salze-Lozac'h, Deputy Director General, IED and Officer-in-Charge, IED2			
Team members	L. Hauck, Senior Evaluation Specialist, IED2 M. Gatti, Principal Evaluation Specialist, IED2 F. D. De Guzman, Senior Evaluation Officer, IED2 C. Dingcong, Consultant			

ADB = Asian Development Bank; ADF = Asian Development Fund; IED = Independent Evaluation Department; IED2 = Independent Evaluation Department, Division 2; OCR = ordinary capital resources; PCR = program completion report.

I. PROGRAM DESCRIPTION

A. Rationale

1. In November 2012, the Asian Development Bank (ADB) approved a program for the Government of Bangladesh consisting of loans to support capital market reforms, and a technical assistance (TA) to facilitate implementing the reform actions. This program—the Second Capital

Market Development Program (CMDP II)[1]—was developed through a project preparatory TA (PPTA)[2] to support capital market reforms following the December 2010 stock market crash in Bangladesh. In January 2011, the government formed a committee to investigate the stock market crash and found that market participants violated rules. The PPTA of ADB did further analysis to identify needed policy actions to address systemic weaknesses. Among others, it was found that the ability of the Bangladesh Securities and Exchange Commission (BSEC)[3] to supervise the stock markets was constrained because it lacked autonomy, capacity, and systems to perform market surveillance. In addition, the management of each of the two stock exchanges—Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE)—were owned by brokers whose involvement in the exchanges constrained the management of these two stock exchanges from supervising their members' activities. The high listing costs curtailed the number of issuances on the stock exchanges, and for the shares that were listed, there were no strict requirements to account, audit, and report the practices of issuers.

2. A further concern was the oversight of the banking sector. In 2009, commercial banks were required by the Bangladesh Bank to establish separate merchant bank subsidiaries for capital markets activities, intended to limit the exposure of the banking system to the markets. The Bank of Bangladesh retained supervisory responsibility for the commercial banks, while the BSEC was responsible for merchant banks, leading to fragmented sector supervision. Banks also contributed to the stock market boom, driving up share prices by investing their own capital in listed shares, which had the effect of reducing funds available to be lent to corporate and other borrowers. Banks and nonbank financial institutions also lent funds to retail investors for the purpose of stock market investments. When the markets crashed in 2010, the market loss was about $27.1 billion, equivalent to 22% of gross domestic product (GDP). Bank and retail investors were significantly affected.

3. Since capital markets also include the domestic bond market, the CMDP II also reviewed the reforms that would promote its development. A particular concern was the lack of corporate issuers, which therefore limited the lack of long-term finance available to support infrastructure projects. The analysis done by the report and recommendation of the President (RRP) determined that the government's practice of issuing many small bonds (average size of each issue was $50 million) at low prices produced a yield curve that did not reflect actual market pricing. Bondholders generally held rather than traded these issuances, which compounds the yield curve distortion as the trading in the secondary market would also be a source of indicative yields for corporate issuers. The domestic capital markets in Bangladesh did not play a significant role in financial intermediation and resource mobilization. In 2012, the capital raised through equity and bond issues was equivalent to only 0.07% of GDP. Issuance costs were high and approval times were slow (3–6 months). Only 11 corporate bonds had ever been issued at the time the RRP was prepared. Institutional investors were not active participants in these markets, and their support for the bond markets is a critical factor in bond market development. Following the Insurance Act of 2010, the insurance industry had a new regulator—the Insurance Development and Regulatory Authority (IDRA).New insurance industry regulation had yet to be

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1 ADB. 2012. *Report and Recommendation of the President to the Board of Directors Proposed Policy-Based Loans and Administration of Technical Assistance Grant to the People's Republic of Bangladesh: Second Capital Market Development Program.* Manila; ADB. 2012. *Technical Assistance to the People's Republic of Bangladesh for Enhancing Efficiency of the Capital Market.* Manila.

2 ADB. 2011. *Technical Assistance to the People's Republic of Bangladesh for Preparing the Capital Market Development Program II.* Manila. ADB also prepared a separate report—Report on Study on Demutualization of Stock Exchanges in Bangladesh. RSC-C13447 (BAN). March 2012.

3 The Securities and Exchange Commission (SEC) was renamed as Bangladesh Securities and Exchange Commission in December 2012. BSEC is used throughout this validation report.

adopted and mutual fund rules curtailed the growth of mutual funds. Also present were special tax advantages for the Investment Corporation of Bangladesh (ICB), which created an uneven playing field between ICB funds and the rest of the industry.

4. The development of the capital markets was critical in providing long-term financing options for the much-needed infrastructure to support the government's goal of achieving middle income status by 2021.[4] Investor confidence was shaken and it was urgent to immediately reform the domestic capital market. The program was designed to complement and support the government's commitment to a meaningful capital market reform.

B. Expected Impact, Outcome, and Outputs

5. The expected impact of the program was a well-functioning financial system that supports basic capital and investment needs, as well as Bangladesh's longer-term economic objectives. The expected outcome was a deeper and more stable capital market. The expected outputs were (i) strengthened market stability, (ii) enhanced market facilitation, (iii) enhanced supply measures, and (iv) enhanced demand measures.

C. Provision of Inputs

6. Three program loans equivalent to $300 million was approved on 28 November 2012, together with the TA grant of $750,000, which was funded by the Japan Fund for Poverty Reduction and administered by ADB. One of the loans closed in April 2013, the other two closed in December 2014, while the TA closed in July 2015. A program completion report (PCR) was prepared in September 2015.[5] At appraisal, the loan sizes were determined based on the expected cost of adjustment arising from the reforms,[6] to be delivered through three loans: (i) $95 million ordinary capital loan to be disbursed in one tranche, (ii) $155 million equivalent ADB Special Funds loan, and (iii) $50 million equivalent ADB Special Funds loan. The two special funds loans were to be disbursed in two tranches, the second tranche subject to further conditions. The effectivity date of the loans was 17 December 2012 (ahead of the 27 February 2013 stipulated in the loan agreement), and the first tranches ($95 million, $25.25 million, and $30.30 million, respectively) were fully disbursed on 19 December 2012. The second tranches for the ADB Special Funds loans were planned to be disbursed in June 2014; both were disbursed in December 2014 after two extensions. The extensions gave the government time to complete the following policy actions required for the fund disbursement, which were (i) submission of the Financial Reporting Act (FRA) to the Parliament, (ii) cabinet approval of the national insurance policy paper, and (iii) approval of BSEC's organizational structure and human resource program. Reasons outside the control of the program's mission and the government, including political agitations, also contributed to the delays. Due to exchange rate fluctuations, the second tranches were slightly smaller in amounts than planned at appraisal, at $150.25 million and $49.53 million, respectively, resulting in a total program loan of $294.8 million. The program was categorized C for safeguards and had no adverse impact on the environment, involuntary resettlement, and indigenous peoples.

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[4] Government of Bangladesh, Planning Commission, Ministry of Planning. 2010. *Outline Perspective Plan of Bangladesh—Making Vision 2021 a Reality: FY2010–FY2021*. Dhaka.

[5] ADB. 2015. *Completion Report: Second Capital Market Development Program in Bangladesh.* Manila.

[6] The adjustment costs across program outputs were estimated at (i) $20 million for market stability (additional BSEC staff time, coordination committee staff time, maintenance and operation cost of surveillance equipment; (ii)$150 million for market facilitation (cost of demutualization and establishment of capital markets tribunal, and operation costs of the Financial Reporting Council and its tribunal); (iii) $10 million for supply measures (forgone revenue on initial public offering tax, bond transaction tax, and stamp duties); and (iv) $150 million for demand measures (cost of paying market prices for government securities and additional IDRA staff).

7. The TA grant had three components: (i) strengthening BSEC enforcement capacity; (ii) expediting adjudication to dispose capital market cases through a separate tribunal; and (iii) improved regulation, governance, and operation of stock exchanges, including their demutualization. A TA completion report was prepared in 2015. The TA grant was assessed *successful* by the TA completion report.[7] The amount utilized by the TA grant was $617,300. The TA grant provided for firm recruitment with 17 person-months of international and 12 person-months of national consulting services. The Int. Securities Consultancy Ltd was awarded the contract, which was fulfilled from June 2013–June 2015. The TA grant also provided for the procurement of UPS, laptops, printers, photocopier, and desktop computer—which were turned over to BSEC upon TA completion.

D. Implementation Arrangements

8. The Bank and Financial Institutions Division (BFID) of the Ministry of Finance was the executing agency and the BSEC was the implementing agency, as planned at appraisal. An interagency committee was established to implement the first tranche policy actions. This included the Ministry of Finance, Bangladesh Bank, National Board of Revenue, BSEC, and IDRA. After compliance with the first tranche policy actions, a steering committee chaired by the BFID Secretary was formed to implement the remaining program.

9. The loans had 28 covenants, all of which were complied with. The covenants included required policy actions to be completed; 13 policy actions for the first tranche and 15 policy actions for the second tranche. The government fully complied with the 13 policy actions called for by the first tranche. Of the 15 policy actions required for the second tranche, 14 were fully complied with, while the remaining covenant was on the FRA and was substantially complied with. The FRA policy action requirement called for the approval of the FRA bill by the cabinet and following cabinet approval, submission of the FRA bill to the Parliament. Following some delays, the FRA bill was submitted to the Parliament in November 2014.[8] The key policy actions or reforms under the program included (i) submission to the Parliament amendments to the Securities and Exchange Commission (SEC) Act to enhance its operational and financial efficiency;[9] (ii) amendments to the Banking Companies Act to contain risks posed by equity markets;[10] (iii) installation of SEC electronic market surveillance system; (iv) establishment of a special tribunal for capital market-related cases; and (v) submission of the Demutualization Act to the Parliament, which was passed in April 2013.

10. The BFID was the executing agency for the TA grant. The TA completion report assessed that the three components were met and that the outputs contributed to the envisaged outcome of enhanced effectiveness of the supervisory and regulatory authority for capital markets. The TA strengthened the enforcement capacity of BSEC through training in audits and inspections of the exchanges and developing internal guidelines and procedures for

[7] ADB. 2015. *Technical Assistance Completion Report Enhancing Efficiency of the Capital Market.* Manila.

[8] The covenant was only for the cabinet to approve and submit the FRA to the Parliament. The passage of the FRA by Parliament was not part of the covenant and was beyond the program. The Parliament passed the bill on 6 September 2015, after program completion.

[9] The amendments included the following key elements: (i) composition of the Commission, (ii) appointment of officers and employees and provision of benefits comparable to Bangladesh Bank, and (iii) Commission access to the SEC Fund without government approval of its budget or its expenditures.

[10] The amendments to Banking Companies Act involved establishing measures for effective consolidated supervision of banks and their capital markets subsidiaries. These include reporting standards, coordination meetings between the Bank of Bangladesh and the SEC, and mechanisms for the exchange of supervisory information and cooperation.

investigation and enforcement. In adjudication, assistance was provided in enacting legislation and issuing regulations that led to the operationalization of the special tribunal for capital market cases. To demutualize the stock exchanges, assistance was provided in reviewing the regulations for demutualization and in drafting the Memorandum and Articles of Association of exchange companies to ensure their conformity with the demutualization scheme. The support provided by the TA grant helped the loan's executing and implementing agencies to comply with the covenant required for the tranche releases.

II. EVALUATION OF PERFORMANCE AND RATINGS

A. Relevance of Design and Formulation

11. The PCR rated the program *highly relevant*. The program was consistent with the ADB country partnership strategy for Bangladesh, 2011–2015,[11] and the country operations business plan, 2012–2014 [12] that support capital market development. It was aligned with the government's Sixth Five-Year Plan[13] that include policy reforms to improve incentives for private investment including provision of long-term financing options through capital market development.

12. The PCR indicated that the program design correctly identified the weaknesses of the capital market, which included lack of BSEC institutional capacity, inadequate governance in the exchanges, poor corporate governance in listed companies, unreliable financial reporting, and bond market weaknesses. The CMDP II program was timely in addressing the factors behind the 2010 crisis and was designed based on the findings of the PPTA. The PPTA work achieved significant government commitment and support for the program with an active steering committee comprised of representatives from all the relevant regulatory agencies. The program's policy actions supported the expansion of the capital market's role in channeling financing to the real sector and addressed inefficiencies in the market. Key legislations for capital market development were realized. These included amendments to the SEC Act, Bank Companies Act 1991, Income Tax Ordinance 1984, the Stamp Act 2012, and enactment of the Demutualization Act. The FRA bill was also submitted to the Parliament.

13. This validation agrees that the program was strategically relevant in addressing the weaknesses of the capital market and the underlying causes of the 2010 crisis. The policy actions were well sequenced and this validation recognizes that many significant policy reform actions have been taken and the majority of the program's design has helped strengthen the regulatory environment and improve conditions for issuers and investors. The exception to this is the program design for the bond market, which was not adequately addressed by the policy actions as indicated by (i) the continued distortions in the bond market, which continue to see the use of forced subscriptions in treasury auctions that produce below-market rates; and (ii) the presence of high-yielding savings schemes, which further served to detract investor interest away from the bond market (PCR, paras. 26–27, 53). The limited supply and demand of bonds was one weakness identified at appraisal. While policy actions—such as the elimination of transaction taxes for bonds and stamp duty relief—were taken, the corporate bond market activity has remained limited, [14] thus, unable to provide a long-term financing option for infrastructure. The markets also continue to be constrained by the lack of institutional investors,

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[11] ADB. 2011. *Country Partnership Strategy: Bangladesh. 2011–2015.* Manila.
[12] ADB. 2011. *Country Operations Business Plan: Bangladesh. 2012–2014.* Manila.
[13] Government of Bangladesh. Planning Commission, Ministry of Planning. 2011. *Sixth Five-Year Plan: FY2011–FY2015.* Dhaka.
[14] As of December 2014, only three corporate bonds were listed in the DSE.

as the IDRA has yet to adopt the regulations and measures that would support the insurance companies' participation in capital markets, and the concerns about level-playing fields for mutual funds were also not resolved through the CMDP II program.

14. The development of a strong and active bond market is a key element in improving capital markets and as designed, the program was not successful in achieving the enabling environment for a vibrant bond market. This validation recognizes that many of the issues that have fallen short of expectations under CDMP II are the subject of continued government and ADB focus and that the Third Capital Market Development Program[15] will build on the experience of CDMP II to further the progress of market reforms. However, considering the program as a whole—the importance of the innovative interagency cooperation that was laid out through the program design, the rapid progress achieved through the program design across many areas of the capital markets, and the foundation for future reform achieved through the program—are duly recognized. Thus, this validation rates the program *highly relevant*.

B. Effectiveness in Achieving Program Outcomes and Outputs

15. The PCR rated the program *effective*. It highlighted improvements in the equity market and investor confidence as indicated by the increase in capitalization, price-earnings ratio, recovery of the initial public offerings, and investor appetite for good quality paper (PCR, paras. 50–51). It noted, however, that the program fell short in corporate bond market development.

16. The design and monitoring framework (DMF) specified three outcome indicators for a deeper and more stable capital market, two of which were achieved. The indicator of stock market capitalization was achieved with capitalization reaching Tk3,186.4 billion by May 2015, exceeding the target of Tk3,000 billion by FY2014. The indicator of enlistment of new securities on the DSE was also achieved, with 553 securities listed in May 2015, exceeding the target of 545 new securities by FY2015. The indicator of number of corporate bonds outstanding was not achieved. Only two corporate bonds were outstanding in May 2015, significantly short of the targeted 12 by FY2015.

17. The DMF specified four program outputs, each with its own indicators. The first output was strengthened market stability with five performance indicators, all of which were achieved. The SEC Act was amended to enhance BSEC's operational and financial efficiency. The memorandum of understanding to strengthen interagency committee to preserve financial stability was complied with in line with tranche release conditions. Banks' exposure to equity risk was reduced to a percentage of capital. The margin lending limits was reduced from 1:1 to 1:0.5 in line with tranche release conditions. The electronic market surveillance was made operational and used by the BSEC.

18. The second output was enhanced market facilitation with five indicators, all of which were achieved. The BSEC was restructured to include the Office of Chief Accountant. The tribunal for capital market was realized with the establishment of the Capital Market Tribunal on 7 January 2014. The BSEC Code of Governance was implemented in line with the tranche release conditions. The demutualization process of the stock exchanges was completed. The FRA bill was approved by the cabinet and submitted to the Parliament.

[15] ADB. 2015. *Report and Recommendation of the President to the Board of Directors Proposed Policy-Based Loans and Administration of Technical Assistance Grant People's Republic of Bangladesh: Third Capital Market Development Program.* Manila.

19. The third output was enhanced supply measures with four indicators, all of which were met. The initial public offering premiums were reduced from 3% to 0% to spur the supply of equities. In line with tranche release conditions, the SEC regulation on private placement of corporate bonds was adopted. The corporate bond transaction tax was reduced from 0.10%–0.05% to 0% to promote bond market activity. The stamp tax for the securitization of assets was removed to support the development of asset-back securities.

20. The fourth output was enhanced demand measures with three performance indicators, which all met tranche release conditions. Asset management companies were allowed to reduce their exposure to equity securities below 75% to allow them greater investment flexibility. The tax advantage for ICB open-ended mutual funds was removed to allow investors in the private sector open-ended mutual funds the same tax advantage. The devolvement of government securities was reduced from 65.0% to 15.4% to enhance institutional investor demand.[16]

21. This validation notes that the outcome target for the corporate debt market was not met. However, in general, the program's expected outputs were delivered and the policy actions helped realize a deeper and more stable capital market than before. This validation rates the program *effective*.

C. Efficiency of Resource Use in Achieving Outcomes and Outputs

22. The PCR rated the program *efficient.* The PCR noted the timeliness of the program that enabled fundamental and difficult reforms that otherwise would have taken significantly longer to achieve. The program costs were justified based on the policy actions required and the adjustment costs involved. The policy actions taken were timely in view of the structural causes underlying the 2010 crisis and the need to expand the capital market. Further, the policy actions were properly sequenced resulting in a more stable capital market than before. The demutualization[17] of DSE and CSE—a key component of the reforms—was achieved in about 2 years, enhancing the operational efficiency of both stock exchanges. This validation adds that fundamental legislations that usually take time to enact were completed during the 2-year program period. There were two extensions on the second tranche of the two ADB Special Funds loans, but these did not affect the outcome of the program. This validation rates the program *efficient.*

D. Preliminary Assessment of Sustainability

23. The PCR rated the program *likely sustainable*. It also indicated the institutional, legal, and policy achievements of the program that will enhance sustainability. The institutional capacity of BSEC was enhanced with the establishment of the capital market tribunal, implementation of the surveillance system, staff training, and improvement in remuneration. The critical legislations that have been enacted included amendments to the SEC Act, Bank Companies Act, Income Tax Ordinance 1984, the Stamp Act 2012, Demutualization Act, and the FRA bill. Policy actions that were taken include policy coordination between regulators,

[16] Devolvement refers to forced subscriptions on treasury auctions. This validation accepts the PCR's report that these matters were addressed in line with tranche release conditions while noting that these matters are also the subject of the Third Capital Market Development Program.

[17] Demutualization of stock exchanges segregates ownership, management, and trading rights of members and converts the two exchanges into commercial and more professionally run organizations that would enable them to pursue their strategic interests, including market development. The governance structure represents all stakeholders.

reduction in the devolvement of government securities, and margin lending limits that will support capital market expansion and sustainability of the reforms. The follow-up Third Capital Market Development Program will sustain the achievements of the program and push further other needed reforms. These reforms include (i) further strengthening of BSEC in areas of regulation and enforcement; (ii) promoting a more liquid government bond market; (iii) amending the corporate bond issuance and private equity rules to enhance supply of bonds, (iv) support for the mobilization of capital market financing; and (v) improving further regulation, governance, and operation of stock exchanges. This validation assesses the program *likely sustainable.*

E. Institutional Development

24. The PCR rated the institutional development of the program *significant*. It noted the policy coordination process that was integral to program implementation and this resulted in ensuring the early identification of responsibility and minimizing the replication of efforts.[18] The enforcement capacity of BSEC was strengthened, the tribunal was established to expedite adjudication of capital market cases, the demutualization of DSE and CSE was facilitated, and regulatory coordination was improved.[19] Significant progress was made in developing the capital market with the passage of critical legislation and submission to the Parliament of the FRA bill—all aimed to upgrade accounting and auditing standards to enhance market confidence. This validation also rates the institutional development of the program *significant*.

F. Impact

25. The PCR assessed the impact of the program *likely significant.* The DMF targeted private investment as a percentage of GDP to increase from a baseline of 19.5% to 23.0% by 2016. In 2014, this percentage to GDP already reached 22%. Long-term financing as a percentage of GDP was targeted to increase from a baseline of 0.09% to 0.50% by 2016. In 2014, the percentage of long-term financing to GDP reached 0.20%. With critical reforms in place, this validation is of the view that the impact targets set for 2016 are on track and will likely be achieved.

26. The program helped enhance the capacity of BSEC and strengthened the governance of the stock exchanges through demutualization (para. 23).The passage of the key legislations provided a more conducive legal environment for the development of the capital market. The participation of the insurance industry in the capital market was enhanced by requiring compliance with the minimum capital requirements of the Insurance Act, and encouraging investor demand through IDRA's investment guidelines. The National Insurance Policy Paper (also known as white paper) approved by the cabinet in June 2014 strengthened the insurance sector. This validation rates the impact of the program *satisfactory*.[20]

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[18] Specifically, the program fostered coordination among the Ministry of Finance, Bangladesh Bank, BSEC, and IDRA.

[19] The council of financial regulatory agencies adopted a mandate for a macro-prudential oversight of the financial system, review of financial sector policies, identified amendments to the legal and regulatory framework, and coordination and information sharing to consolidate supervision.

[20] Beginning May 2016, IED adopts the ratings terminology of the April 2016 Guidelines for the Evaluation of Public Sector Operations on development impacts. In this terminology, a *satisfactory* rating coincides with the significant rating that was used before.

III. OTHER PERFORMANCE ASSESSMENTS

A. Performance of the Borrower and Executing Agency

27. The PCR rated the performance of the borrower *satisfactory*. The PCR reported that both the executing and implementing agencies worked closely with the mission and the consultants to meet expected outcomes. The commitment of the government and stakeholders was evident from the compliance with the tranche conditions and policy actions taken, including critical legislations. Stakeholder consultations were undertaken to achieve consensus for the reforms. This validation considers the performance of the borrower *satisfactory*.

B. Performance of the Asian Development Bank

28. The PCR assessed the performance of ADB *satisfactory*. ADB closely supervised and monitored the program. Eight review missions and three consultation missions were fielded. The mission was proactive in following up compliance with the tranche conditions, participated in dissemination seminars, and pursued policy dialogues to minimize delays. ADB was responsive to the request for two loan extensions to allow time for the submission of the FRA bill to the Parliament, approval of the National Insurance Policy paper by the cabinet, and approval of the BSEC organizational structure. This validation views the performance of ADB *satisfactory*.

IV. OVERALL ASSESSMENT, LESSONS, AND RECOMMENDATIONS

A. Overall Assessment and Ratings

29. The PCR rated the program *successful*. It indicated that the program set the stage for significant financial sector expansion. The initiatives have restored market confidence and will further expand the availability of market instruments. This validation recognizes the importance of the innovative interagency cooperation that was laid out through the program design, the rapid progress achieved through the program design across many areas of the capital markets, and the foundation for future reform achieved through the program. The validation rates the project *highly relevant*. This validation rates the program *effective* in that the expected outputs were delivered and the policy actions helped realize a deeper and more stable capital market. The program is rated *efficient* by this validation on account of the timeliness of the program and the completion of complex reforms in a period of 2 years. This validation rates the program *likely sustainable*. The fundamental institutional, legal, and policy reforms have been set in place and the capacity of BSEC enhanced. The follow-up Third Capital Market Development Program will build on the gains of the program and push further other needed reforms. Overall, this validation rates the program *successful*.

Overall Ratings

Criteria	PCR	IED Review	Reason for Disagreement and/or Comments
Relevance	Highly relevant	Highly relevant	
Effectiveness in achieving outcome	Effective	Effective	
Efficiency in achieving outcome and outputs	Efficient	Efficient	
Preliminary assessment of sustainability	Likely sustainable	Likely sustainable	

Criteria	PCR	IED Review	Reason for Disagreement and/or Comments
Institutional development	Significant	Significant	
Impact	Likely significant	Satisfactory	
Overall assessment	**Successful**	**Successful**	
Borrower and executing agency	Satisfactory	Satisfactory	
Performance of ADB	Satisfactory	Satisfactory	
Quality of PCR		Satisfactory	Refer to para. 33.

ADB = Asian Development Bank, IED = Independent Evaluation Department, PCR = program completion report.
Note: This report uses the ratings terminology of the April 2016 Guidelines for the Evaluation of Public Sector Operations.
Source: ADB Independent Evaluation Department.

B. Lessons

30. The lessons presented by the PCR are suitable. Policy coordination that was integral to the program's implementation ensured identification of responsibility and minimized replication of effort. Understanding the shortcomings in government's response to the crisis is important for proposing proactive remedies. The crisis provided an opportunity to push reforms and the program design resulted in mutually reinforcing actions that simultaneously addressed the causes of the crisis and expanded the financial sector. The continuing weakness in the corporate debt market indicates lack of focus on issues related to market distortions and lack of a recovery mechanism. This validation adds that a well-designed program, strong working relationships with regulatory agencies, adequately funded additional TA grant, and properly sequenced policy actions are important factors for success, all of which were shown in CMDP II.

C. Recommendations for Follow-Up

31. The recommendations presented in the PCR are sound. Further follow-up is needed to eventually enact the FRA bill that was submitted to the Parliament. Additional covenants may be included for the recovery of security in case of corporate defaults and on pricing discrepancies in corporate bonds. The BSEC and Bangladesh Bank may develop a memorandum of understanding on the collection, sharing, and coordination of supervisory information; risk assessments; and enforcement. Assistance may be considered for supporting the pension sector. Monitoring the impact target to achieving long-term financing availability set at 0.50% of GDP by 2016 is also recommended.

V. OTHER CONSIDERATIONS AND FOLLOW-UP

A. Monitoring and Evaluation Design, Implementation, and Utilization

32. The BFID monitored the program and ensured that all policy actions were carried out in a timely manner. Monitoring of program performance was based on the policy matrix and the DMF. The indicators identified in the DMF were clear and actual performance clearly presented.

B. Comments on Program Completion Report Quality

33. The quality of the PCR is *satisfactory*. The report is well written and follows the ADB Project Administration Instructions 6.07a.[21] There was adequate analysis and evidence to substantiate the ratings for relevance, efficiency, effectiveness, sustainability, and impact. The actual achievements vis-à-vis the expected outcome and outputs were clearly presented in Appendix 1 and consistent with the main text. The status of compliance with the tranche release conditions presented in Appendix 2 was informative. Appendix 5 provided helpful information on understanding the factors responsible for the stock market crisis. The lessons were drawn from the findings and the recommendations were sound.

C. Data Sources for Validation

34. The sources for this validation were the RRP, PCR, loan review mission reports, TA completion report, final report on the TA grant, and the PPTA final report.

D. Recommendation for Independent Evaluation Department Follow-Up

35. None is recommended.

[21] ADB. 2009. *Project Completion Report for Sovereign Operations: Project Administration Instructions 6.07a.* Manila.